

Message Text

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15

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 NSC-10 SS-14

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INFO AMEMBASSY BERN

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AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS TOKYO 3718

PASS TREASURY AND FEDERAL RESERVE

E. O. 11652 : N/A

TAGS: EFIN JA

SUBJ: FURTHER MOVES TOWARDS TIGHTER MONETARY POLICY

REF: TOKYO 3552

SUMMARY: BANK OF JAPAN WILL TIGHTEN THE GROWTH OF BANK
CREDIT TO THE TEN LARGEST TRADING COMPANIES IN THE APR- JUNE
QUARTER.

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1. BOJ HAS PLACED A CEILING OF YEN66,500 MIL ON INCREASES IN LOANS TO THE TEN MAJOR TRADING COMPANIES BY THE 14 CITY BANKS IN THE SECOND QUARTER. THAT CEILING IS HALF OF THE INCREASE IN LOANS TO THESE CORPORATIONS RECORDED IN THE SAME QUARTER A YEAR AGO. THE CEILING IMPOSED DURING THE FIRST QUARTER OF 1973 OF YEN86,000 MIL WAS ABOUT EQUAL TO THE INCREASE RECORDED IN THE SAME QUARTER A YEAR EARLIER. IN ADDITION, BOJ " WINDOW GUIDANCE" IS BEING EXTENDED TO FINANCIAL INSTITUTIONS OTHER THAN THE CITY BANKS WHICH ARE BEING REQUESTED TO REDUCE THE GROWTH OF CREDIT EXTENSION TO THE MAJOR TRADING COMPANIES.

2. AN INCREASE IN THE OFFICIAL DISCOUNT RATE OF 0.5 PERCENT TO 4.75 PERCENT (AS REPORTED IN REFTEL) WILL BE EFFECTIVE IN EARLY APR. THE DISCOUNT RATE INCREASE IS EXPECTED TO LEAD TO A GENERAL RISE IN DOMESTIC INTEREST RATES AND IS CONSIDERED A FURTHER EFFORT AT MONETARY RESTRAINT. ALL OF THESE ACTIONS ALONG WITH TWO RECENT INCREASES IN THE RESERVE RATIO ON DEPOSITS ARE KEY ELEMENTS OF THE GOVT' S EFFORT TO RESTRAIN MOUNTING INFLATIONARY PRESSURES. DESPITE THE FLOATING OF THE YEN ON FEB 14, DOMESTIC BUSINESS ACTIVITY CONTINUES TO ADVANCE AT A RAPID PACE. THE WHOLESALE PRICE INDEX WHICH HAS BEEN RISING SHARPLY SINCE AUG 72 IS BEING INTERPRETED AS A SIGN THAT INFLATIONARY FORCES ARE STRONG. THERE ARE SOME SIGNS THAT IT IS HAVING AN IMPACT ON THE CONSUMER PRICE INDEX AND THE RAPID RISE IN THE COST- OF- LIVING INDEX IS BECOMING A STRONG BARGAINING FACTOR IN THIS YEAR' S WAGE OFFENSIVE.

3. ONE MAJOR QUESTION NOW BEING CONSIDERED BY THE FINANCE MINISTRY IS THE TIMING AND AMOUNT OF INCREASES IN INTEREST RATES ON BANK BANK DEPOSITS. ONE POSSIBILITY IS FOR AN INCREASE OF .5 PERCENT ON TIME DEPOSITS AND .25 ON OTHER DEPOSITS, WITH ANOTHER BEING A FLAT RATE INCREASE OF .25 PERCENT ON ALL DEPOSITS. A FINAL DECISION ON THIS MATTER WILL BE MADE FOLLOWING MINFIN AICHI' S RETURN FROM WASHINGTON.

4. OTHER INTEREST RATE INCREASES ARE ALREADY ANTICIPATED. RATES ON CORPORATE BONDS SCHEDULED TO BE ISSUED DURING APR ARE TO BE RAISED, AS WELL AS RATES ON OTHER FIXED RATE SECURITIES AND DEPOSITS SUCH AS GOVT AND GOVT- GUARANTEED BONDS, BANK UNCLASSIFIED

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DEBENTURES AND TRUST ACCOUNTS. JAPANESE BANKS ARE EXPECTED TO RAISE THEIR PRIME RATE, NOW AT 4.5 PERCENT, TO 5 PERCENT, AS WELL AS VIRTUALLY ALL OTHER BANK LENDING RATES.

THUS A NEW TREND OF RISING INTEREST RATES IS BEGINNING TO
DEVELOP.

5. CONCERN CONTINUES TO INCREASE WITHIN GOVT CIRCLES, HOWEVER,
THAT MONETARY POLICY MEASURES ALONE WILL NOT BE SUFFICIENT
TO REVERSE THE RECENT INFLATIONARY TREND, AND THAT FISCAL
POLICY MEASURES MAY ALSO HAVE TO BE EMPLOYED. EMPHASIS
CONTINUES TO BE PLACED ON THE POSSIBILITY OF DEFERMENT OF
SOME PORTION OF HEAVY PROSPECTIVE PUBLIC WORKS INVESTMENT
EXPENDITURES AS A COROLLARY TO THE MONETARY MEASURES ALREADY
TAKEN.
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